

TWIA FUNDING

COMPARISON OF POTENTIAL SCENARIOS

SCENARIO 1:

WHAT IF: HURRICANE HARVEY SIZE STORM-\$1.8 BILLION HITS IN 2020:

<u>CURRENT FUNDING</u>			
<u>CURRENT FUNDING</u> <u>Source</u>	<u>Amt. Available</u>	<u>Estimated Amt Used</u>	<u>Total Used</u>
1-TWIA Funds for losses & lae (30% of annual premium)	\$105 M	\$105 M	\$105 M
2-CRTF	\$176 M	\$ 176 M	\$281 M
3-Class 1 Bonds up to \$500 M	\$500 M	\$500 M Used	\$781 M
4-Class 1 Assessments up to \$500 M	\$500M	\$500 M Assessed	\$1.281 B
5-Class 2 Bonds up to \$250 M	\$250M	\$250 M Used	\$1.531 B
6-Class 2- Assessments up to \$250 M	\$250M	\$250 M assessed	\$1.781 B
7-Class 3 Bonds-up to \$250 M	\$250M	\$19 M Used	\$1.8 B
8-Class 3 Assessments up to \$250 M	\$250M	0	
9-Reinsurance	\$2.2 B	0	0

Comments on Scenario 1:

1. Because the CRTF was depleted after Hurricane Harvey, it may take several years for TWIA to rebuild its CRTF. **Because of the lack of CRTF, under this scenario TWIA**

would have to issue new Class 1 bonds (\$500M), new Class 2 bonds (\$250M) and new Class 3 bonds (\$19 M).

2. After TWIA pays its expenses and tax, it has approximately 30% of its premium dollars available to pay for both *non-hurricane and hurricane losses* in any year. \$105 M is the estimate amount of premium dollars that would be available in 2020 if TWIA has losses similar to Hurricane Harvey in 2020.
3. The CRTF is estimated to be \$176 M, which is the amount reported as of 3/31/2020, which does not reflect the \$45 M paid towards 2014 bonds. Under the current plan, this would be used before new Class 1 bonds are required.
4. The aggregate assessment on insurers under the Scenario 1 would be \$750 Million. This assessment is an expense that is born by all property policyholders in Texas (other than TWIA).
5. In this scenario I, TWIA would have to issue \$769 M in new bond debt through 3 new bond issues. The costs of issuing bonds is not insignificant and estimate to be between \$8-\$10 Million per issue. The interest rate for bonds would be determined prior to issuance but likely to be a much higher rate because of questions on TWIA's financial ability to repay bonds.
6. A separate document shows funding through reinsurance in 2020.

**SCENARIO 2:
HURRICANE IKE SIZE STORM OF \$2.4 BILLION HITS:**

<u>CURRENT FUNDING</u>			
<u>Source</u>	<u>Amt. Available</u>	<u>Estimated Amt Used</u>	<u>Total</u>
TWIA Funds for losses & lae (30% of annual premium)	\$105M	\$105 M	\$ 105
CRTF	\$176 M	\$ 176 M	\$281 M
Class 1 Bonds up to \$500 M	\$500 M	\$500 M	\$781 M
Class 1 Assessments up to \$500 M	\$500M	\$500 M	\$1.281 B
Class 2 Bonds up to \$250 M	\$250M	\$250 M	\$1.531 B
Class 2- Assessments up to \$250 M	\$250M	\$250 M	\$1.781 B
Class 3 Bonds-up to \$250 M	\$250M	\$250 M	\$2.031 B
Class 3 Assessments up to \$250 M	\$250M	\$250 M	\$2.281 B
Reinsurance	\$2.2 B	\$119 M	\$2.4 B

Comments on Scenario 2:

1. Under this scenario TWIA would be required to issue new Class 1, Class 2 and Class 3 bonds in a total amount of \$1 B. Insurers would be assessed \$1 B. Approximately \$119 M in Reinsurance would pay the final amount needed.
2. TWIA would likely have to surcharge both TWIA policyholders and all coastal P/C policyholders in order to have sufficient funds to repay new bonds. TWIA is currently paying approximately 18% of its premium to repay the old Class 1 bonds issued in the initial amount of \$500 Million.